DOCUMENT RESUME

ED 176 648 HE 011 743

AUTHOR Hyde, William D., Jr.
TITLE State Guaranteed Agencies and Capital Availability for Student Loans. Papers in Education Finance. Paper No. 22.
INSTITUTION Education Commission of the States, Denver, Colo. Education Finance Center.
PUB DATE Jul 79
NOTE 36p.
AVAILABLE FROM Education Finance Center, Education Commission of the States, Suite 300, 1860 Lincoln Street, Denver, CO 80295

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Administrative Organization; Agency Role; Comparative Statistics; Educational Finance; Family Income; Federal Aid; *Financial Policy; Government Role; Grants; Higher Education; *Loan Repayment; Parental Financial Contribution; *State Agencies; State Aid; Statistical Analysis; Student Costs; *Student Financial Aid; *Student Loan Programs

ABSTRACT

The relationship between capital available for student loans and the types of programs through which loans are made to students is examined in this paper on educational finance. Cost of attendance, amount of grant aid, and ability to pay are investigated as factors that affect the amount of loans a student needs to finance a college education. Data on each aspect is analyzed for every state. A comparison of state loan programs includes the average loan amount per student. Results of the study indicate a lack of relationship between loan amounts and structural characteristics of the states. The cost of attendance is found to be closely correlated with the net cost to the family. The average loan amount is positively related to cost of attendance and net costs to the family. Regression analysis suggests that the existence of a state guarantee loan agency has little effect on a state's average loan amount per student. The presence of state loan agencies may lower default rates and operating expenses, and increase accessibility to loans. It is concluded that the presence of a state loan agency depends on the position that a state takes toward the support of education and that as loans become a more important component of financing students' education costs, states prefer to use state agencies. (Author/SF)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED176648

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

ECS

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

PAPERS IN EDUCATION FINANCE

Paper No. 22

STATE GUARANTEE AGENCIES AND CAPITAL AVAILABILITY FOR STUDENT LOANS

By William D. Hyde, Jr.

Education Finance Center
Education Commission of the States
1860 Lincoln, Suite 300
Denver, Colorado 80295

July 1979

HE 011 743

CONTENTS

		Page
	EXECUTIVE SUMMARY	ii
	INTRODUCTION	1
I.	ANALYSIS OF STUDENT LOAN AMOUNTS	4
II.	DETERMINANTS OF AVERAGE LOAN AMOUNT	14
III.	TYPES OF STATE FINANCING POLICIES	16
IV.	LOAN VOLUME OF STATE GUARANTEE LOAN AGENCIES ...	22
V.	SUMMARY AND CONCLUSION	26

EXECUTIVE SUMMARY

The purpose of this paper is to determine the relationship between capital availability for student loans and type of program through which loans are made to students. The hypothesis advanced is that states with state guarantee agencies provide more loan capital for their students than do states without state guarantee agencies. From the evidence presented, based on comparisons among states, average loan amount per student in a state is not affected by whether a state has a guarantee loan agency; a state can provide a given level of loan capital with or without a state guarantee loan agency. Although the average loan amount per student in states with agencies ($272) is higher than in states without agencies ($200), the difference is not statistically significant and is more likely the result of higher costs of attendance in those states than the result of the presence of state agencies.

An explanation of the amount of loan capital availability in a state requires examining state financing policies for education, which also indicates the likelihood of a state having a state guarantee loan agency. Advocacy of the creation or maintenance of state agencies should be made on grounds other than that of providing greater average loan amounts. These alternative grounds might include differences of loan accessibility among students within a state, lower default rates, lower operating costs, or greater flexibility to meet individual state needs. States with high costs of attendance and states with large average loan amounts make particularly heavy use of state agencies. Given the apparent inevitability of the growing importance

of loans as a financing mechanism, it seems appropriate, on the basis of results presented here, to foster the development of state agencies.

INTRODUCTION

An examination of loans and loan programs should be made in the broad context of student financial aid, educational costs and the responsibility and role of a state to reduce financial obstacles to attendance.

A broad context is required because loans are not made in a vacuum; they are made to assist students in meeting their financial needs, but need is a variable entity, depending upon the cost of the educational services, ability to pay and institutional and state policies regarding tuition and student financial aid. Consequently, the same amount of loan capital available may be satisfactory in one situation but unsatisfactory in another. Furthermore, capital availability for student loans is not well defined. A popular measure of capital availability is dollar loan volume per student. An assumption underlying this measure is that the larger the average loan amount per student, the more fully met are loan capital needs. Actually, the adequacy of loan capital cannot be determined without some definition of need and then a comparison of that need with the amount of loan capital available. Given the current structure of loan provisions whereby students can invest loan proceeds at higher interest rates than what they pay to obtain the loan capital and given the removal of an income ceiling for eligibility for loans, the willingness (and implied need) of students (and their parents) to borrow is unlimited. Only legislated loan maximums and lack of information about loan programs prevent greater borrowing.

To be meaningful, loan volume should be related to some standard. One objective against which the adequacy of loan volume can be evaluated is estimates of appropriate loan levels for students with certain abilities to pay attending institutions of certain costs. Another standard is relative: a comparison of loan volumes among states, taking into account other pertinent factors. For example, one state with a greater average loan volume per student than another may still have greater unmet loan capital need because of lower ability to pay, higher priced education or less grant aid. The approach of this paper is to take into account these factors in examining loan programs and loan availability among the states.

A major shortcoming of using average loan amount for a measure of capital availability among states is that it obscures variations within states. A state that makes only a small number of large loans will have an average loan amount that may be modestly high although many students with need may not receive loans. An alternative measure that would reveal this practice is to calculate the ratio of the number of loans to the number of students. This measure, however, also is not without flaw. Many small loans could be given, resulting in a high ratio and indicating wide accessibility, but still leaving many students with inadequate loan capital. No completely satisfactory evaluation is possible until some standard of need is quantitatively defined and measured.*

---

*I am grateful to J. Wilmer Mirandon and Robert C. Sinnaeve for discussion of this subject.

The hypothesis that is put forth is that states with state guarantee agencies provide more loan capital for their students than do states that do not have state guarantee agencies.

The reasoning is the following: A state is responsive to the needs of its residents. The greater the need for student loans, the more likely it is that a state will establish an agency in response to the need.

I. ANALYSIS OF STUDENT LOAN AMOUNTS

Cost of attendance, amount of grant aid and ability to pay are three factors that affect the amount of loans a student needs to finance his or her education. In Table 1 measures of these three factors are given for each state.

Column 1 gives the average student cost of attendance for each state.* Also given is an average cost of attendance for the United States which is weighted for enrollment and an unweighted average of the 50 states plus the District of Columbia. The average cost of attendance for the states is $3,472 and is smaller than the United States average of $3,506 mainly because of the high cost of attendance and large enrollments in the states of Connecticut, Massachusetts, New York and Pennsylvania. As with all columns in Table 1, states in column 1 that are more than one standard deviation below the mean are marked with a number sign and states that are more than one standard deviation above the mean are marked with an asterisk.

---

*The cost of attendance is established in the following way. A national estimate of all noninstructional expenses for a student residing in campus housing is calculated from CSS data for 1978. This figure is weighted for enrollment by institutional sector and to this amount is added an expense for tuition and fees per student. The tuition and fees expense is calculated from NCES data by dividing total tuition and fee revenue in a state by the FTE student count.

Source: College Scholarship Service of the College Entrance Examination Board, Student Expenses at Postsecondary Institutions: 1978-79, New York: College Entrance Examination Board, 1978, p.8; National Center for Education Statistics, Financial Statistics of Institutions of Higher Education. Fiscal Year 1976, Washington, D.C.: U.S.G.P.O., 1978; and NCES, Fall Enrollment in Higher Education 1976, Washington, D.C.: U.S.G.P.O., 1978.

TABLE 1

STATE CHARACTERISTICS

	(1) Cost of Attendance	(2) Net Cost to Family	(3) Col.2 as a percent of Col.1	(4) Loan Amount	(5) Col.4 as a percent of Col.1	(6) Per Capita Income, 1976
Alabama	3145.	2818.	#89.6	140.	5.0	# 5106.
Alaska	3372.	3264.	#96.8	# 44.	# 1.3	*10415.
Arizona	#2922.	#2726.	93.3	161.	5.9	5799.
Arkansas	3044.	#2717.	#89.3	144.	5.3	# 4934.
California	3002.	2787.	92.8	94.	3.4	7151.
Colorado	3538.	3294.	93.1	130.	4.0	6440.
Connecticut	*3980.	*3769.	94.7	*1226.	#32.5	* 7356.
Delaware	3683.	3530.	*95.8	219.	6.2	7030.
District of Columbia	*4297.	*4107.	*95.6	145.	3.5	* 8067.
Florida	3380.	3100.	91.7	199.	6.4	6020.
Georgia	3360.	3100.	92.3	165.	5.3	5548.
Hawaii	#2887.	2762.	*95.7	180.	6.5	7080.
Idaho	#2932.	2748.	93.7	104.	3.8	5640.
Illinois	3580.	3192.	#89.2	271.	8.5	* 7347.
Indiana	3731.	3444.	92.3	218.	6.3	6222.
Iowa	3830.	3536.	92.3	328.	9.3	6245.
Kansas	3160.	2923.	92.5	294.	10.1	6469.
Kentucky	3234.	2934.	90.7	155.	5.3	5379.
Louisiana	3104.	2785.	#89.7	103.	3.7	5405.
Maine	3844.	3583.	93.2	337.	9.4	5366.
Maryland	3599.	3366.	93.5	172.	5.1	6880.
Massachusetts	#4470.	*4229.	94.6	381.	9.0	6588.
Michigan	3571.	3315.	92.8	212.	6.4	6754.
Minnesota	3499.	3114.	#89.0	* 462.	*14.8	6183.
Mississippi	3086.	*2669.	#86.5	135.	5.0	# 4529.
Missouri	3587.	3349.	93.4	150.	4.5	5963.
Montana	3025.	2802.	92.6	206.	7.4	5689.
Nebraska	3401.	3204.	94.2	428.	*13.4	6086.
Nevada	3030.	2853.	94.2	127.	4.5	7162.
New Hampshire	*4618.	*4458.	*96.5	284.	6.4	6010.
New Jersey	3743.	3336.	#89.1	* 636.	*19.1	# 7381.
New Mexico	3059.	#2722.	#89.0	99.	3.6	5322.
New York	*4174.	3484.	#83.5	* 605.	*17.4	7019.
North Carolina	3246.	3011.	92.8	95.	3.2	5453.
North Dakota	3010.	2764.	91.8	* 531.	*19.2	5846.
Ohio	3816.	3572.	93.6	217.	6.1	6412.
Oklahoma	2988.	2738.	91.6	126.	4.6	5707.
Oregon	3304.	3068.	92.8	147.	4.8	6261.
Pennsylvania	*4306.	*3900.	90.6	* 586.	*15.0	6439.
Rhode Island	*4275.	*4034.	94.4	315.	7.8	6331.
South Carolina	3208.	2826.	#88.1	63.	2.2	# 5147.
South Dakota	3625.	3291.	90.8	* 586.	*17.8	# 5120.
Tennessee	3453.	3173.	91.9	138.	4.3	5364.
Texas	#2963.	2749.	92.8	125.	4.5	6201.
Utah	3143.	2963.	94.3	117.	4.0	5350.
Vermont	*4925.	*4601.	93.4	374.	8.1	5411.
Virginia	3384.	3189.	94.2	193.	6.0	6341.
Washington	3044.	2882.	94.7	102.	3.5	6894.
West Virginia	#2972.	2760.	92.9	163.	5.9	5460.
Wisconsin	3447.	3166.	91.8	344.	10.9	6117.
Wyoming	3067.	2912.	94.9	150.	5.1	6642.
United States	3506.	3078.	#87.8	273.	8.9	6396.
Mean for 51 States	3472.	3208.	92.4	253.	7.7	6217.
Standard Deviation	488.	474.	2.6	205.	5.6	965.

Column 2 is the average net cost to the family, equal to the cost of attendance minus grant aid from Basic Grants, Supplemental Grants, State Student Incentive Grants (the federal share) and state grants.* Column 3 gives the percentage that the net cost to the family is to the cost of attendance. The average difference among states between the cost of attendance and the net cost to the family is $264 which means that on average among the states a student's family actually pays only 92.4 percent of the cost of attendance. As with the cost of attendance, the average across states of the net cost to the family is more than the average amount for the United States because of the large amounts of grant assistance received by large numbers of students in a few states. On average, disregarding state boundaries, a student receives $428 in grants and pays only 87.8 percent of the cost of attendance.

Column 4 gives the average loan amount, which, among the states, is an average of $253 per FTE student, although it may be as high as $1,226 in Connecticut and as low as $44 in Alaska. The loan amount as a percentage of the net cost to the family is given in Column 5. The average for the states is 7.7 percent but there is wide variation among states. In Connecticut nearly a third of what a student's family pays for the student to attend is paid with loans. Students in New Jersey, New York, North Dakota, Pennsylvania and South Dakota also have on average large loan amounts -- more than twice the average for all states. The loan amount in other states, such as Alaska, California,

---

*Source: Education Commission of the States, "States and Student Aid." Denver, Colorado: Education Commission of the States, 1979 (mimeo).

Idaho, Louisiana, New Mexico, North Carolina, South Carolina and Washington, is less than half the average for all states.

The last column gives 1976 per capita income, a measure of ability to pay.

While one can spend much time examining Table 1 picking out states with high or low this or that, a few observations are pointed out here in conjunction with information given in Table 2 that shows the type of state loan programs that states have. Twelve states have no state guarantee agency, 26 have had a state guarantee agency since before the passage of the Education Amendments of 1976, and 13 states have established an agency since the 1976 Amendments.* Eighteen states also have direct state loan programs generally designed to supplement the state guarantee agency except in Texas which has no state guarantee agency. Table 2 also indicates the five states (Connecticut, Illinois, Kentucky, North Dakota and Utah) that provides secondary money markets for the operation of their loan programs.

A comparison of state loan program structures among the states (Table 2) with the average loan amount per student (Table 1) shows a lack of any consistent relation. For example, Connecticut, the state that makes the largest use of loans, is also a state with an established state guarantee agency. It also has a direct state loan program and a secondary money market. In contrast to Connecticut,

---

*Washington and Colorado just recently passed legislation allowing the establishment of a state agency. For this analysis, they are treated as nonagency states.

TABLE 2
STATE GUARANTEE LOAN AGENCIES AND RELATED CHARACTERISTICS

	No State Guarantee Loan Agency	Established State Guarantee Loan Agency	New State Guarantee Loan Agency	Direct State Loan Program	Secondary Money Market Provided By State
Alabama	x				
Alaska		x		x	
Arizona	x				
Arkansas		x			
California			x		
Colorado*	x				
Connecticut		x		x	x
Delaware		x			
District of Columbia		x			
Florida			x	x	
Georgia		x		x	
Hawaii	x				
Idaho			x		
Illinois		x		x	x
Indiana			x		
Iowa			x		
Kansas			x	x	
Kentucky			x	x	x
Louisiana		x			
Maine		x			
Maryland		x			
Massachusetts		x			
Michigan		x		x	
Minnesota			x	x	
Mississippi	x				
Missouri	x				
Montana	x				
Nebraska	x				
Nevada		x			
New Hampshire		x			
New Jersey		x		x	
New Mexico			x	x	
New York		x			
North Carolina		x		x	
North Dakota	x				x
Ohio		x			
Oklahoma		x		x	
Oregon		x			
Pennsylvania		x			
Rhode Island		x			
South Carolina			x	x	
South Dakota			x		
Tennessee		x			
Texas	x			x	
Utah			x	x	x
Vermont		x			
Virginia		x		x	
Washington*	x				
West Virginia	x				
Wisconsin		x		x	
Wyoming	x				
Number of States	13	26	12	18	5

*The state has passed legislation to become a new agency state.

Source: Touche Ross & Co. Study of the Requirements for Forming State Guarantee Agencies. Washington, D.C., 1979

there is South Dakota that also has a high average loan amount but which is a new agency state and does not have a direct loan program or Nebraska that also has a high average loan amount, but which has no state agency.

The lack of a relationship between loan amounts and structural characteristics is also indicated in Table 3, which gives the correlations for the factors given in Table 1 plus whether the state has a state guarantee agency and a direct loan program.

It is important to note that the cost of attendance is very highly correlated with the net cost to the family (r = .98). This high correlation indicates that federal and state grant aid is distributed mainly in proportion to cost of attendance, although it also is distributed to lower income people. The correlation between cost of attendance and per capita income is .20, but the correlation between net cost to the family and income is .26, indicating that grant aid is distributed so that those with more ability to pay do pay more.

The average loan amount is also positively related to cost of attendance and net cost to the family (r = .48 and .42, respectively). The more it costs to attend, the more heavily a student and his or her family will draw upon all sources, including loans, to finance the education. The decline from the correlation between loan amount and cost of attendance, on the one hand, to the correlation between loan amount and net cost to the family, on the other, suggests that more loan funds go to students who do not receive as much grant aid. As we know, grant aid goes to low income students more than to others, and loan funds go more to middle income students than to others.

TABLE 3

CORRELATIONS OF STATE CHARACTERISTICS

	COA	NCF	PNCFCOA	L	PLNCF	PCI	A
Cost of Attendance (COA)							
Net Cost to Family (NCF)	.980**						
Net Cost to Family as a Percentage of Cost of Attendance (PNCFCOA)	.115	.307					
Loan Amount per FTE (L)	.476**	.425**	-.132				
Loan Amount as a Percentage of the Net Cost to Family (PLNCF)	.336*	.278*	-.195	.982**			
Per Capita Income (PCI)	.203	.262	.404**	.135	.099		
State Guarantee Loan Agency (A)	.418**	.385**	-.084	.154	.080	.145	
Direct State Loan Program	-.185	-.204	-.148	.053	.078	.111	.338*
Established State Guarantee Loan Agency	.515	.512	.099	.196	.105	.306	.068

*Significant at the .05 level
**Significant at the .01 level

The correlation between cost of attendance and states with agencies (r = .42) is significant; agency states are those that tend to have higher costs of attendance and higher net costs to the family. For established agency states the correlation is even stronger (r = .52). This supports the reasoning behind the hypothesis set forth in the introduction. A state with high cost (and presumably high student financial need) may create a state agency as a way of responding to student financial needs. The average loan amount, however, while positively correlated with the presence of a state agency (r = .15) is not statistically significant.

The differences between agency and nonagency states are given in Table 4. Thirteen states without agencies have an average cost of attendance of $3,127 while the average cost of attendance for states with agencies is $3,590. A similar difference exists for net costs to the family. States without agencies also have smaller average loan amounts ($200 for nonagency states versus $272 for agency states) and lower incomes, but these differences are not significant. Also the difference between nonagency and agency states in the percentage of the net cost to the family paid by loans or the percentage of the cost of attendance paid by the family is not significant.

A comparison of nonagency states with only those agency states that were established prior to 1976 emphasizes the differences found between nonagency and agency states. The cost of attendance and net cost to the family for established agency states are higher than for all agency states; the average loan amount is higher by $21 ($293); the percent of the net cost to the family composed of loans is 8.2 percent

TABLE 4

COMPARISON OF STATE CHARACTERISTICS
ACCORDING TO STATE AGENCY TYPE

Characteristic	States without Agencies	States with Agencies	States with Established Agencies
Cost of Attendance	$3,127	$3,590*	$3,716*
Net Cost to Family	$2,899	$3,314*	$3,444*
Net Cost to Family as a Percentage of Cost of Attendance	92.7 percent	92.2 percent	92.6 percent
Loan Amount per FTE	$ 200	$ 272	$ 293
Loan Amount as a Percentage of the Net Cost to Family	6.9 percent	7.9 percent	8.2 percent
Per Capita Income	$5,980	$6,299	$6,504

*Indicates a significant difference (at the .01 level) compared to the nonagency states.

(versus 7.9 percent for all agency states and 6.9 percent for nonagency states), and per capita income is about $200 higher. Again, only the cost-of-attendance and net-cost-to-the-family differences are statistically significant.

II. DETERMINANTS OF AVERAGE LOAN AMOUNT

To isolate the effect of state agencies on the average loan amount within a state, regression analysis is used. The results are given in Table 5. The first five equations are the results of simple regressions showing the explanatory power of each variable separately. These results give information similar to the correlation coefficients. Only the cost-of-attendance and the net-cost-to-the-family variables have significant regression coefficients (the t-values are given in parentheses beneath the coefficients). The presence of an agency (either established or new) in a state has a positive, but statistically insignificant, effect on the average loan amount, as is the case for per capita income.

Equations 7 and 8 in comparison with Equation 6, show that the state agency variable (whether referring to all agency states or only established agency states) has almost no effect on the average loan amount within a state once cost of attendance, net cost to the family, and income are taken into account. In fact, the agency variables are negative, indicating that the presence of an agency may reduce the average loan amount. The regression coefficients, however, are not close to being significant at any commonly accepted significance level. Whatever effect state agencies appear to have on the average loan amount seems to be due primarily to the cost of attendance.

TABLE 5

REGRESSIONS OF AVERAGE LOAN AMOUNTS FOR 51 STATES

Equation	Cost of Attendance	Net Cost to Family	Per Capita Income	Guarantee Loan Agency	Established Guarantee Loan Agency State	R^2
1	.201 (3.79)					.227
2		.184 (3.28)				.180
3			.029 (0.95)			.018
4				71.6 (1.09)		.024
5					79.7 (1.40)	.038
6	.722 (2.64)	-.559 (-1.96)	.027 (0.94)			.287
7	.776 (2.74)	-.597 (-2.05)	.029 (1.02)	-49.6 (-0.77)		.296
8	.748 (2.69)	-.566 (-1.97)	.031 (1.06)		-38.6 (-0.54)	.293

III. TYPES OF STATE FINANCING POLICIES

The analysis of the previous section failed to show that the average amount of loans per student in a state can be explained in terms of the type of loan program that a state has. The presence or absence of a state guarantee loan agency may, however, be related to the type of financing policy explicitly or implicitly adopted by a state.

Two of the most common financing policies are the high cost, high aid and the low cost, low aid policies. Both of these policies imply a central state responsibility for education, but, in the high cost, high aid policy, support for education is sensitive to the individual's ability to pay because most aid is need-based. The low cost, low aid policy benefits equally all students and often coincides with open admission policies.

Other policies also exist. For example, belief that education is largely a private matter and that the state's responsibility for providing financial support is minimal could be portrayed by a high cost, low aid policy. For this paper, eight financing policies are considered involving three dimensions. One dimension is cost. Another dimension, aid, is divided into grant aid and loan aid. Each of the three is separated into high or low cost or aid so that one policy might be, for example, high cost, high grant aid, and low loan-aid. The eight policies are given in Table 6. Each state has been designated as having one of the eight financing policies on the basis of first determining whether its average cost is above or below the average for the 51 states, then determining its level of grant

TABLE 6

TYPES OF STATE FINANCING POLICIES

		Average Cost	Average Grant	Average Loan	Average Income
HIGH COST					
High Grant Aid					
high loan aid	Illinois (E); Iowa (N); Minnesota (N); New Jersey (E); New York (E); Pennsylvania (E); South Dakota (N)	$3,822	$ 415	$ 496	$6,533
low loan aid	Indiana (N)	$3,731	$ 287	$ 218	$6,222
Low Grant Aid					
high loan aid	Connecticut (E); Maine (E); Massachusetts (E); Rhode Island (E); Vermont (E)	$4,299	$ 256	$ 527	$6,210
low loan aid	Colorado (X); Delaware (E); District of Columbia (E); Maryland (E); Michigan (E); Missouri (X); New Hampshire (E); Ohio (E)	$3,839	$ 215	$ 191	$6,695
LOW COST					
High Grant Aid					
high loan aid	North Dakota (X)	$3,010	$ 246	$ 531	$5,846
low loan aid	Alabama (X); Arkansas (E); Florida (N); Georgia (E); Kentucky (N); Louisiana (E); Mississippi (X); New Mexico (N); Oklahoma (E); South Carolina (N); Tennessee (E)	$3,187	$ 316	$ 133	$5,315
Low Grant Aid					
high loan aid	Kansas (N); Nebraska (X); Wisconsin (E)	$3,336	$ 238	$ 355	$6,224
low loan aid	Alaska (E); Arizona (X); California (N); Hawaii (X); Idaho (N); Montana (X); Nevada (E); North Carolina (E); Oregon (E); Texas (X); Utah (N); Virginia (E); Washington (N); West Virginia (X); Wyoming (X)	$3,086	$ 188	$ 134	$6,503

aid*, and finally, its loan level. While this is a crude measure because a state with an average of one additional dollar of cost, grant or loan may be placed in a different category, this approach does allow certain general observations. States that typify the category of which they are a member are underlined in Table 6. The letter in parentheses after each state indicates whether the state is an established agency state (E), a new agency state (N), or a state without a guarantee agency (X). Also given in the table is the average cost, grant award, loan amount and per capita income for the states in each category.

The two most popular categories have low cost, low loan aid policies, but one group has, in addition, a high grant aid policy and the other a low grant aid policy. The low cost, high grant aid, low loan aid group contains 11 southern states. The lower incomes of these states (an average of $5,315 versus an average of $6,217 for the 51 states) probably account for the high grant aid they receive. The other group consists of 15, mostly western states with large public sectors (an average of 88.7 percent of the enrollment is in public institutions) and higher than average income levels. Six of the 12 states without guarantee agencies are in this group. Another four of them are new agency states. Similar, although less accentuated, is the situation of the low cost, high grant, low loan aid states where 6 of the 11 states have either a new agency or no agency at all.

---

*The level of grant aid is defined in terms of the percentage of the cost of attendance provided by grants. Consequently, a state with high grant aid according to this measure may have a smaller average dollar amount of grant aid per student than another state that is designated as a low grant aid state.

The next most popular financing policy is the high cost, high aid (grant and loan) policy found in states such as Illinois, New Jersey, New York and Pennsylvania. The states in this group are eastern states with large private sectors and all of them have new or established state guarantee loan agencies.

States with high cost but low grant and high loan aid are all in New England and have established agencies. These states have a large private sector and a student population that on average is not disadvantaged (average per capita income is $6,588), which explains the high cost and low grant aid. The large loan aid is due in large part to middle income students not eligible for much grant aid but in need of assistance to meet the high costs of attendance.

States that place the greatest burden on the student -- those with high cost and both low grant aid and low loan aid -- are of a broader geographic mix. Colorado and Missouri have no guarantee agency, but the other six states in this category have established guarantee agencies. This situation raises a question of the purposes of state guarantee loan agencies. Some states may be primarily concerned with providing loans to students; other states may place greater importance on the repayment of loans. The states in this category that have agencies may have a conservative loan policy, preferring to avoid high risk loans that could result in a large number of defaults and in greater costs for the agency.

The ideal situation from the student's point of view is for a state to have a low cost, high grant aid, high loan aid policy, but only North Dakota is in this category. North Dakota is also unique in

that it does not have a state guarantee agency, although the Bank of North Dakota serves in this capacity and provides a secondary market to allow liquidity for commercial lenders.

While a more detailed study of state education financing policies would show each state to have unique features, some comparisons among categories of states are worthwhile. One interesting contrast is between the high and low grant aid states, both with high cost and high loan aid. The former will be referred to as the Illinois group and the latter as the Connecticut group.

It appears that students (or families) in the Connecticut group bear a greater financial burden to attend than students in the Illinois group. The cost of attendance in the Connecticut group is on average almost $500 more than for the Illinois group, but average income in the Connecticut group is $300 less. Furthermore, grant assistance in the Connecticut group is less than for the Illinois group. Consequently, the financial burden facing students in the Connecticut group is greater than that facing students in the Illinois group. Use of loans could be a means of alleviating the financial burden of the students in the Connecticut group, but the average loan amount for students in that group is practically the same as the average loan amount for students in the Illinois group. In a sense, within the comparison of these two groups, it seems that the Illinois group should have less loan aid or that the Connecticut group should have more. However, there are explanations that would justify these differences. One possibility is that the Connecticut group may attract a large number of out-of-state students who have greater income and ability to pay than the average

for the students from states in the Connecticut group.

Another interesting comparison is between the similarly referred to groups of Alabama and Alaska. One can see that they have approximately the same cost of attendance. The ability to pay (income), however, is quite disparate, but the greater ability to pay of the Alaska group is reflected in the smaller average amount of grant aid for the group. The equity of having equal loan amounts between these two groups is ambiguous. On the one hand, students in the Alaska group pay more and should therefore be allowed to borrow more to spread over time the financial burden. On the other hand, the Alabama group has less ability to pay from current income and therefore might have greater need for the use of loans.

IV. LOAN VOLUME OF STATE GUARANTEE LOAN AGENCIES

To this point, the analysis of loans and state guarantee loan agencies has examined the average total loan amount per student. The agencies, however, are only one of three sources of loans comprising the total loan amount reported. In Table 7 the average amount of loans made in 1977-78 per FTE student under the FISL program, the NDSL program and state guarantee loan agencies are given for each state. The percentage of the total average loan amount that is made through the state agency is also given for each state. The average is 65.4 percent, but values range from zero (for those states without agencies) to 93.0 percent for New Jersey. New York and Pennsylvania are nearly as high (92.8 and 92.9 percent, respectively). These three states are members of the high cost, high grant aid, high loan aid category. The average for all states in this category is 63.2 percent, but Table 8 shows that for established agency states with this type of state financing policy the percentage is 88.0.

Since newer agency states have not had as much time to develop their programs as established agency states and because the data reported in Table 7 is based on loan data from the 1977-78 academic year, the relation is not clear between the average percentage of loan amounts derived from state agency loans and the type of state financing policy. Calculating the average loan amount, however, on only those states with established state agencies (see Table 8) shows that high loan aid states have a higher percentage of their loan volume originating through state agencies than do low loan aid states. Table 8 also shows that states with high cost policies are more likely to

TABLE 7

AVERAGE PER STUDENT LOAN AMOUNTS BY STATE, 1977-78

	(1) FISL	(2) State Agency	(3) NDSL	(4) Total	(5) [Col.2 divided by Col.4] x 100
Alabama	105.	0.	35.	140.	.0
Alaska	0.	25.	19.	44.	56.0
Arizona	132.	0.	29.	161.	.0
Arkansas	2.	107.	36.	144.	74.0
California	66.	0.	28.	94.	.0
Colorado	96.	0.	35.	130.	.0
Connecticut	109.	1085.	32.	1226.	88.5
Delaware	0.	187.	32.	219.	85.4
District of Columbia	122.	0.	23.	145.	.0
Florida	167.	0.	31.	199.	.0
Georgia	0.	128.	37.	165.	77.5
Hawaii	148.	0.	32.	180.	.0
Idaho	73.	0.	32.	104.	.0
Illinois	42.	199.	30.	271.	73.2
Indiana	119.	63.	36.	218.	29.0
Iowa	292.	0.	36.	328.	.0
Kansas	4.	254.	35.	294.	86.5
Kentucky	116.	0.	39.	155.	.0
Louisiana	2.	66.	35.	103.	63.7
Maine	0.	301.	37.	337.	89.1
Maryland	17.	125.	29.	172.	73.0
Massachusetts	63.	284.	35.	381.	74.5
Michigan	0.	179.	32.	212.	84.8
Minnesota	1.	419.	42.	462.	90.8
Mississippi	99.	0.	36.	135.	.0
Missouri	116.	0.	34.	150.	.0
Montana	169.	0.	37.	206.	.0
Nebraska	393.	0.	35.	428.	.0
Nevada	0.	99.	28.	127.	77.7
New Hampshire	50.	199.	35.	284.	70.1
New Jersey	13.	591.	31.	636.	93.0
New Mexico	63.	0.	36.	99.	.0
New York	7.	561.	37.	605.	92.8
North Carolina	7.	55.	34.	95.	57.7
North Dakota	495.	0.	36.	531.	.0
Ohio	0.	183.	33.	217.	84.4
Oklahoma	2.	83.	41.	126.	66.1
Oregon	1.	114.	32.	147.	77.7
Pennsylvania	7.	544.	35.	586.	92.9
Rhode Island	44.	238.	33.	315.	75.6
South Carolina	8.	19.	37.	63.	29.9
South Dakota	547.	0.	39.	586.	.0
Tennessee	9.	94.	35.	138.	67.9
Texas	93.	0.	32.	125.	.0
Utah	19.	64.	34.	117.	55.0
Vermont	22.	317.	35.	374.	84.8
Virginia	4.	157.	31.	193.	81.4
Washington	69.	0.	33.	102.	.0
West Virginia	131.	0.	32.	163.	.0
Wisconsin	1.	308.	36.	344.	89.5
Wyoming	116.	0.	33.	150.	.0
United States	57.	179.	37.	273.	65.4

TABLE 8

TYPES OF STATE FINANCING POLICIES AND LOAN AGENCIES

Types of State Financing Policy	Number of States	Number of States with Established Loan Agencies	Average Percent of Total Loan Amount From State Agencies for States with Established State Agencies
HIGH COST			
High Grant Aid			
high loan aid	7	4	88.0
low loan aid	1	0	--
Low Grant Aid			
high loan aid	5	5	82.5
low loan aid	8	6	79.5
LOW COST			
High Grant Aid			
high loan aid	1	0	--
low loan aid	11	5	69.8
Low Grant Aid			
high loan aid	3	1	89.5
low loan aid	15	5	70.1

have established loan agencies than states with low cost policies. This indicates that a state long concerned about high costs prefers having a state agency to provide loans, regardless of the amount or size of loans made, and that, among states with established agencies, states with high loan aid policies provide more capital through state agencies than through other loan programs.

V. SUMMARY AND CONCLUSION

The purpose of this paper has been to examine among states the relationship between the existence of a state guarantee loan agency and the average amount of loans per student. Data show that the patterns and levels of costs and grant and loan assistance are highly variable among states. An example or an exception can be found for nearly any situation. However, regression analysis shows that, controlling for the cost of attendance, grant assistance and per capita income, the existence of a state guarantee loan agency (whether an established agency or not) has virtually no effect on a state's average loan amount per student.

It appears that a state does not have to adopt a particular loan program structure to achieve its loan objectives. The advocacy of state guarantee loan agencies should not be made on the grounds that they provide more loan capital than other types of loan programs. There are, however, other possible grounds, such as lower default rates, lower operating expenses, more accessibility of loans among students within a state, or greater flexibility to meet individual state needs, upon which support for state agencies may be made.

Analysis of the states according to their type of financing policy shows that states in several situations prefer to use state agencies for providing loans.

A high cost of attendance state, generally an eastern state with a large private institutional sector, is a state that historically has been confronted with high costs and large student financial need and is

more likely to have a state guarantee loan agency, and especially an established agency, than other states. Furthermore, states with large average loan amounts, regardless of high or low cost, generate a larger percentage of their loans through state agencies than states with smaller average loan amounts.

On balance, the results presented here suggest that the presence in a state of a guarantee loan agency depends upon the position that a state takes toward the support of education and that as loans become a more important component of financing students' education costs, states prefer to use state agencies. Given the apparent inevitability of the growing importance of loans as a financing mechanism, it seems appropriate on these grounds to foster the development of state agencies.